THE CRISIS OF 1860 AND THE FIRST ISSUE OF CLEARING-HOUSE CERTIFICATES. II

The industrial and agricultural developments of the decade 1850–60, the recovery from the panic of 1857, and the unsettled political conditions obtaining in Europe and in the United States at the end of the decade, have been considered in Part I of this paper.

It has been noted that the New York banks, which had been expanding their loans during 1858 and the early months of 1859, began in June, 1859, to contract. In the face of heavy imports during the preceding months, a strong demand for foreign acceptances developed; but as this sort of paper had suddenly become of doubtful value, owing to the recent failure of many European houses under the stress of political disturbances in Europe, recourse was had to specie. Drafts approved by bankers brought 11 per cent.[33] Sterling exchange rose from 9¼ on April 1, to 11 per cent. on June 12.[34] The huge war expenditures being made by France at this time made gold dearer in Paris and attracted the precious metal from New York. In addition, Austria and Germany were seeking specie to strengthen their bank

[33] *Hunt's Merchants' Magazine*, Vol. XLI, p. 77.

[34] In early colonial days the Spanish silver dollar, or piece of eight reals, was computed as equal to 54*d.* sterling; or, at par, the pound sterling was equal to \$4.44$\frac{4}{9}$. When American silver dollars went out of circulation in the United States, as a consequence of the Act of 1834, only gold was in circulation. The American gold eagle (10 dollars) contained 258 grains troy standard, nine-tenths fine; or 232.2 grains pure gold. The English gold sovereign contained 123.274478 grains, troy, eleven-twelfths fine; or 113.001605 grains pure gold. On this basis the English sovereign is at par equal to 4.8665 gold dollars. Inasmuch as the conservative habits of bankers maintained the old reckoning of par at \$4.44$\frac{4}{9}$ based on the silver dollar, even after gold came into circulation, par in gold was 9½ per cent. above \$4.44$\frac{4}{9}$. This 9½ per cent., therefore, never was a premium, but only the sum necessary to raise the obsolete par to the real par in gold of \$4.8665. By an Act of Congress, March 3, 1873, the par of exchange between Great Britain and the United States at \$4.44$\frac{4}{9}$ was changed to the real par of \$4.8665.

reserves.[35] The combined effect of these causes is seen in the money rates in New York, as exhibited in the following table:[36]

TABLE VI

MONEY RATES IN NEW YORK, 1859

	Mar. 15	Apr. 15	May 15	June 1	June 15	July 1	July 15
	%	%	%	%	%	%	%
Loans on call, stock securities	4 - 5	4 - 5	5 - 6	6 - 7	5 - 6	5 - 6	5½- 6
Loans on call, other securities	4½- 6	5 - 6	6 - 7	7 - 8	6 - 7	6 - 7	6 - 7
Prime indorsed bills, 60 days	4½- 5½	5 - 5½	6 - 6½	6½- 7	7 - 8	6½- 7	6 - 6½
Prime indorsed bills, 4 to 6 months	5½- 6½	6 - 6½	6½- 8	7 - 8	8 - 9	7 - 7½	6½- 7
First class single signatures	6 - 7	6½- 7	7 - 9	8 - 9	9 -10	8 - 9	7 - 8
Other good commercial paper	7 - 8	8 - 9	9 -10	9 -10	10 -12	10 -12	10 -12
Names not well known	9 -10	9 -10	10 -12	10 -12	12 -15	12 -15	12 -15

	Aug. 1	Aug. 15	Sept. 1	Sept. 15	Oct. 1	Nov. 1	Nov. 15
	%	%	%	%	%	%	%
Loans on call, stock securities	6 - 7	6 - 7	5½- 6	6 - 6½	5½- 7	5 - 5¼	5 - 5½
Loans on call, other securities	7 - 8	7 - 8	7 - 8	7 - 7½	6 - 7	6 - 7	5½- 6
Prime indorsed bills, 60 days	6½- 7½	6½- 7¾	6 - 7	6 - 7	6½- 7	6½- 7½	6 - 6½
Prime indorsed bills, 4 to 6 months	7 - 8	7¼- 8	7 - 7½	7 - 7½	7 - 8	7½- 8	6½- 7
First class single signatures	8 - 9	8½- 9¼	8 - 8½	7½- 8	10 -12	10 -12	7 - 8
Other good commercial paper	11 -13	11½-14	11 -14	10 -13	10 -15	12 -15	10 -12
Names not well known	12 -15	12½-16	12 -16	12 -15	....	....	....

During the succeeding months of the year exports fell off owing to the diminished foreign demand for American breadstuffs, harvests being abundant in Europe.[37] Smaller exports and large imports involved a prolonged export of gold, which caused some uneasiness.[38] However, peace was suddenly declared in Europe in August, and in the revival of trade the United States participated. Exports increased and in New York the rate of exchange fell. The outflow of specie diminished, and rates on money fell until they were again at the usual level. The following table is interesting as showing the movement of specie during the year, and the amount in the city.[39]

[35] *Hunt's Merchants' Magazine*, Vol. XLI, p. 77.

[36] *Ibid.*, p. 79 *et seq.* [37] *Ibid.*, p. 332. [38] *Ibid.*

[39] Compiled from *Hunt's Merchants' Magazine*, Vol. XLII, pp. 197, 198.

TABLE VII

MOVEMENT OF SPECIE IN NEW YORK, 1859*

	Received	Exported	Specie in Sub. Treas.	Total in City
Jan. 8		1.0	4.2	32.6
15	1.3	.2	4.3	33.6
23	...	.5	4.8	34.3
30	1.2	.4	7.2	34.9
Feb. 5	...	.6	8.1	34.0
13	1.3	.3	8.0	33.4
20	1.2	1.0	6.7	33.1
27	...	.3	7.1	33.6
Mar. 5	...	1.0	7.2	33.9
12	.9	.3	8.6	34.2
19	...	.8	9.0	34.0
26	...	.2	8.0	34.2
April 2	1.0	1.3	7.6	32.9
9	...	.5	7.2	32.9
16	1.4	1.6	7.0	32.5
23	...	1.4	6.8	32.9
30	1.7	1.6	6.5	32.8
May 7	...	2.1	6.4	32.5
14	1.4	1.9	6.0	31.1
21	...	2.2	5.4	31.5
28	1.9	5.1	4.7	29.1
June 5	...	2.3	4.3	28.0
12	1.5	1.8	3.6	25.8
19	...	1.6	3.6	26.7
25	...	1.6	4.4	26.2
July 2	2.0	1.8	4.0	27.0
9	...	1.3	4.2	26.7
16	1.7	2.4	4.2	27.5
23	...	2.0	5.1	26.3
30	2.1	2.3	5.1	25.8
Aug. 6	...	1.2	5.3	25.4
13	1.8	1.5	5.3	26.0
20	...	1.5	4.9	26.3
27	2.1	1.5	4.8	25.5
Sept. 3	.9	.5	4.8	26.3
10	2.0	2.3	4.9	26.6
17	...	1.7	5.0	21.5
24	...	2.7	5.1	25.8
Oct. 1	...	1.4	5.2	24.4
8	2.8	.7	4.7	24.2
15	1.8	1.4	4.6	24.2
22	...	1.1	4.7	25.6
29	1.8	2.0	4.8	26.0
Nov. 5	...	1.5	4.6	24.8
12	1.5	1.0	5.0	25.2
19	...	1.3	5.6	25.4
26	1.7	...	5.8	24.7
Dec. 3	...	.9	5.8	25.8
10	1.8	.6	6.0	25.8
17	...	.6	6.0	26.4
24	...	.1	6.1	25.7
31	1.4	.3	7.0	26.6
	42.7	69.9		

*The quantities in this table are expressed in terms of millions of dollars, five ciphers being omitted.

As has been intimated, the year 1860, destined to witness momentous events in the political and financial world, opened under auspicious circumstances. During the first six months, the trade of the country was beyond all precedent. An immense crop of cotton carried the exports beyond any previous figure. The crops in the West were bounteous. To add to the good fortune of the farmers, the harvests of Europe were a comparative failure. Consequently wheat and flour were in great demand, and the West expected a year of exceptional prosperity.

As the summer went by the commercial and financial outlook of the country continued bright. Money was cheap. The supply of bills on Europe was so plentiful that importers were able to remit with ease. The rate of sterling exchange fell, indicating that the balance due Europe was small. The export of specie declined considerably after September 15.

Then a cloud, dark and portentous, suddenly gathered on the horizon. The presidential election about to be held was being contested over the issue of slavery. The South was more alive to the real question at stake than the North, which was inclined to regard predictions of trouble lightly, as due to the machinations of demagogues.

New York City banks had expanded their loans liberally at the beginning of the year, reaching the sum total of one hundred and thirty million dollars in April, with total reserves amounting to 24 per cent. of deposits and circulation.[40] Loans were somewhat contracted during the next three months; but they again stood at one hundred and thirty millions in August. A vague, undefined feeling of an impending catastrophe was in the air, and beginning with the last week of August the banks contracted their loans at the rate of $1,000,000 per week.[41] On October 6, as indicated on the chart, accompanying Part I of this article in the February issue of the *Journal*, loans had dropped to one hundred and twenty-three millions.

Western banks, in order to move the crops, had in the meantime increased their loans, and extended their circulation. To

[40] *Hunt's Merchants' Magazine*, Vol. XLIV, p. 212.

[41] *Ibid.*, Vol. XL, p. 215; Vol. XLII, p. 215; Vol. XLIV, p. 212; also Mitchell, *History of the Greenbacks*, p. 30.

secure their note issue, many of these banks had deposited in the state treasuries bonds which had been sold by southern states.[42] Yet the West, favored by big crops at home, and poor ones abroad, faced the future with confidence. This feeling spread to the East, and many merchants, anticipating a heavy western demand in the spring of the ensuing year, began to lay in an extra supply of wares.

State elections were held in Pennsylvania on October 9, and the Republican party triumphed. This was understood as a good omen for Lincoln's success as a candidate for the presidency. Southern papers adopted a bitter and menacing attitude, and men prominent in business and public life there threatened secession. On October 22, bids for a 5 per cent. government loan were opened. They were found to be at an average premium of one-half of 1 per cent.[43] The rate was fair, but the limited amount of bids gave evidence that investors were apprehensive of trouble.

Yet there was little stringency in the money market in New York during the month of October. It was far otherwise, however, in the South. There the people were more than apprehensive, they were almost certain that war would soon be a reality. Money rates began to rise. Southern bonds fell in value, and much of the currency of the West, secured by these bonds, kept pace with the decline. Pressure was felt especially in Illinois and Wisconsin. Illinois had about ninety-four banks with a total circulation of some twelve million dollars. About two-thirds of the securities upon which the circulation was based consisted of bonds of Virginia, Missouri, North Carolina, and Tennessee. The suffering that ensued from this vitiated currency was severe, especially on the poorer classes.[44]

Abraham Lincoln was elected president of the United States on November 6. Southerners who were federal officers immediately resigned their commissions. The tone of the southern press became bitterly hostile. Bills that were falling due to mer-

[42] *Hunt's Merchants' Magazine*, Vol. XLIV, p. 76.

[43] *Bankers' Magazine* (New York), 1860–1861, "Notes on the Money Market."

[44] Dunbar, *Economic Essays*, p. 302.

chants in New York could not be collected from southern debtors. In turn, exchange on New York could not be cashed in the South. A sharp demand for specie ensued. The precious metal began to flow from New York to Charleston, New Orleans, and Mobile.[45] In ten days this movement carried off, as far as is known, some $3,500,000 in specie, and discount rates began to rise.[46] The appended table indicates the effects of these developments upon money rates in New York:

TABLE VIII

RATES ON PAPER IN NEW YORK JUNE 1, 1860, TO JANUARY 15, 1861*

Date	On Call		Indorsed		Single Names	Other Good	Not Well Known
	Stocks	Other	60 days	4–6 months			
1860							
June 1.....	4¾	6	5	6	6½	8	9
June 15....	4¾	5	4½	5	5½	6	8
July 1......	5	5½	5	5	5½	7	8
July 15.....	5	5½	5	5	5½	7	8
Aug. 1.....	5	6	5	6	6½	7½	9
Aug. 15....	5½	6	6	6	6½	8	9
Sept. 1.....	6	7	6½	7	8	9	12 –24
Sept. 15....	6	6½	7	7½	6⅛	9	10 –10½
Oct. 1.....	6½	7	6½	6½	8	9	12 –20
Oct. 15....	6½–7	7 – 8	6½– 7	6½– 7½	8 – 8½	9 –10	12 –20
Nov. 1.....	6½–7	7 – 8	6½– 7	7 – 7½	8 – 9	10 –12	12 –15
Nov. 15....	7 –8	7 – 9	8 – 9	9 –10	9 –12	14 –15	15 –24
Dec. 1.....	7 –8	9 –10	10 –12	12 –15	15 –18	24 –36	...–...
Dec. 15....	6 –7	9 –11	12 –15	15 –18	20 –...	...–...	...–...
1861							
Jan. 1......	5½–6½	8 –10	10 –12	13 –15	18 –...	...–...	...–...
Jan. 15.....	5 –6	6 – 7	7 – 8	8 – 9	8 –10	12 –16	18 –24

**Hunt's Merchants' Magazine*, Vol. XLVI, p. 198.

New York had always been a large creditor of the South. Bills drawn against the cotton which the South sent to Europe were as a rule sold in New York; the proceeds were used in part to pay debts of Southerners to northern houses, and in part to purchase northern manufactures. The South now not only repudiated its debts and ceased to buy northern manufactures, but it also, as intimated above, demanded specie in payment for the drafts which New York brokers had accepted. To add to the pressure on New York merchants, they suddenly found them-

[45] *London Economist*, Vol. XVIII, p. 1359.

[46] Dunbar, *Economic Essays*, p. 302.

selves with a great deal of repudiated, and consequently worthless, southern acceptances on their hands. This paper was, of course, of no value to secure accommodation at the banks.[47] The bankers of New York, too, were doubly injured—first, by the drain on their specie, and secondly, by the depreciation in value of southern paper held.

As noted above, the shock came in the midst of great prosperity. Factories in the North had never been so busy; crops of the West and South were record-breaking. The fear and, at last, the certainty, of a bloody war caused the financial storm to break and spread ruin on every hand. Paper, which in normal times undoubtedly would have been liquidated by the future goods on which it was based, became worthless. Panic ensued.

Western business relations with the East greatly complicated matters. An enormous internal trade was carried on between the West, whose center was Chicago, and the East, of which New York was the metropolis. It was the custom of New York dealers to buy grain for export by accepting western drafts. They then sold the wheat in Europe for London bills, and met their western obligations by selling their London bills in New York. Suddenly, owing to pressure in the money market, sterling exchange became unsalable except at ruinous rates of discount. Therefore, they were unable to remit to western creditors. In turn, Chicago dealers could not pay the farmers for the grain they had bought; and the farmers were unable to meet their book obligations at retailers' stores. In turn, too, New York wholesale merchants could not make collections from retailers in the West.[48]

It was clearly seen that the only way to check the panic was to be found in an extension of loans by the banks; and in providing a market once more for bills of exchange. Accordingly, on November 19, the members of the New York Clearing-House Association met together and agreed to come to the relief of the market by buying $2,500,000 sterling exchange.[49] Some buyers

[47] *London Economist,* Vol. XVIII, p. 1359 *et seq.*

[48] *Ibid.*

[49] *Hunt's Merchants' Magazine,* Vol. XLIV, p. 200.

who had been holding back, reassured by the action of the banks and expecting that rates would become easier, also entered the market. But not much relief was secured, and on the twenty-first affairs became more alarming than ever. The bankers met again on that day to devise some method of relieving the situation.

The low rate of exchange on England at this time precluded shipment of specie thither. The drain to the South had ceased. New York banks now held an amount of specie equal to 22 per cent. of their cash liabilities (see chart). The heavy fall in sterling exchange made it certain that gold would soon flow from Europe to America.

The banks wished to extend their loans liberally. In order to effect this end, and to facilitate the settlement of exchanges between the banks themselves, it was decided that any bank in the Clearing-House Association might at its option deposit with a select committee of five members, chosen by the Association, any amount it desired of its bills receivable, United States stocks, Treasury notes, or approved stocks of the state of New York, and receive in return certificates of deposit, on which it would be required to pay interest at 7 per cent. per annum.[50] These certificates were to be in denominations of five and ten thousand dollars, were to be issued up to 75 per cent. of the value of the securities pledged, and could be used to settle balances at the Clearing-House only for a period of thirty days from the date of issue.[51]

A creditor bank was, by this agreement, obliged to accept each day from the Clearing-House such a proportion of the certificates offered as its own balance bore to the total amount settled.[52] It is obvious that under this arrangement some banks might be unable to maintain their reserves, if certificates of deposit were used to any considerable extent by debtor banks in settling balances. The banks receiving these certificates were themselves obliged to pay out gold on demand to depositors;

[50] *Hunt's Merchants' Magazine*, Vol. XLIV, p. 200.

[51] *Ibid.*; see also Dunbar, *History and Theory of Banking*, pp. 79–82.

[52] *Hunt's Merchants' Magazine*, Vol. XLIV, p. 91.

thus their own reserves would be depleted, and a new kind of paper would appear in their assets.

To obviate this difficulty a further expedient was adopted: The specie belonging to the associated banks was to be considered and treated as a common fund for their mutual aid and protection. The committee had power given them to equalize this common reserve by assessment or otherwise.[53] For this purpose it was enacted that each day, before the commencement of business, statements should be made to the committee of the condition of each bank before the commencement of business. These statements were to be sent, with the exchanges, to the manager of the Clearing-House, specifying the following items: (1) loans and discounts; (2) deposits; (3) loan certificates; (4) specie.

This data enabled the committee to determine daily which banks were carrying a disproportionate amount of specie in comparison with other banks in the Clearing-House Association. The common specie reserve was then, according to agreement. equalized among the banks by assessment.[54] At the request of a depositing bank the committee was authorized to exchange any portion of securities on deposit for an equal amount of other approved securities. It also had power to demand additional security, either by an exchange of securities or an increase in their amount. Interest accrued upon certificates was, at the expiration of thirty days, apportioned among the banks which had held the certificates during that time.[55] It was further agreed that after February 1, 1861, every bank in the Clearing-House Association should have on hand at all times an amount of specie equal to one-fourth of its net liabilities; and that any bank whose specie should fall below that proportion should not make loans or discounts until its position in that regard was re-established. To enforce this provision the members of the Clearing-House agreed not to exchange with any bank which should show by two successive weekly statements, that it had violated the agreement.[56]

Under this agreement, certificates amounting to ten million

[53] *Hunt's Merchants' Magazine*, p. 91.

[54] *Ibid.*, p. 91. [55] *Ibid.*, p. 91. [56] *Ibid.*, p. 92.

dollars were issued, all to be redeemed by February 1, 1861.[57] This issue marks the turning-point in the panic. In the next week the banks increased their loans rapidly. This continued for several weeks until the decrease of business resulting from the revulsion caused the demand for loans to fall off. The causes which underlay the crisis were still operative, and liquidation was inevitable; but the virtual fusion of the fifty banks of New York into one central bank had, without doubt, prevented the suspension of specie payments, which came thirteen months later during the war. During the period that loans were being rapidly extended, customers usually placed them as deposits on the books of the bank; and very little specie was withdrawn.[58] Many bitter criticisms, however, were directed against the New York bankers because of the arrangement adopted. It was declared that the plan virtually amounted to a suspension of specie payments, since the debts of the banks to each other were no

[57] Dunbar, *The Theory and History of Banking*, p. 82.

[58]

ISSUE OF LOAN CERTIFICATES BY NEW YORK BANKS 1860–1893

REPORT OF COMPTROLLER OF THE CURRENCY, 1907, p. 63

Loan Committee of—	Date of First Issue	Date of Last Issue	Date of Final Cancellation	Aggregate Issue	Maximum Amount Outstanding
1860	Nov. 23, 1860	Feb. 27, 1861	Mar. 9, 1861	$ 7,375,000	$ 6,860,000
1861	Sept. 19, 1861	Feb. 17, 1862	April 28, 1862	22,585,000	21,960,000
1863	Nov. 6, 1863	Jan. 9, 1864	Jan. 30, 1864	11,471,000	9,608,000
1864	Mar. 7, 1864	April 25, 1864	June 13, 1864	17,728,000	16,418,000
1873	Sept. 22, 1873	Nov. 20, 1873	Jan. 14, 1874	26,565,000	22,410,000
1884	May 15, 1884	June 6, 1884	Sept. 23, 1886	24,915,000	21,885,000
1890	Nov. 12, 1890	Dec. 22, 1890	Feb. 7, 1891	16,645,000	15,205,000
1893	June 21, 1893	Sept. 6, 1893	Nov. 1, 1893	41,490,000	38,280,000

Loan Committee of—	Date	Rate of Interest	Nature of Collaterals
		Per cent.	
1860	Dec. 22, 1860	7	United States stocks; Treasury notes; stocks of State of New York.
1861	Feb. 7, 1862	6	Temporary receipts of United States for purchase of Government bonds.
1863	Nov. 27 to Dec. 1, 1863	6	United States or New York State stocks, bonds, etc., or temporary receipts as in 1861.
1864	April 20, 1864	6	Same as in 1863; committee of that year continued.
1873	Oct. 3, 1873	7	Bills receivable; stocks, bonds, and other securities.
1884	May 24, 1884	6	Same as 1873.
1890	Dec. 12. 1890	6	Do.
1893	Aug. 29 to Sept. 6, 1893	6	Do.

For a brief but excellent description of these issues see Dunbar's *Theory and History of Banking*, pp. 83–94.

longer settled by specie, but by the pledge of securities. But the public could promptly receive specie on demand; and so long as the convertibility of the bank note was maintained the interests of the public were guarded effectually. As far as the public was concerned, therefore, there was no suspension of specie payments.

On November 24 the Boston banks followed the example of those of New York in so far as to agree among themselves to discount freely. Banks owing balances at the Clearing-House were allowed to settle in their own notes up to fifty per cent. of the balances due, in amounts ranging from ten thousand to one hundred thousand dollars, according to the capital of the bank tendering them.[59] But they did not make a common fund of their specie as did the banks of New York. As the banks refrained from mutual demands for specie, they were able to weather the storm.[60]

It was not possible for some banks in other parts of the country to co-operate as the New York institutions had done. The Farmers' Bank of Virginia, a strong bank with numerous branches, suspended specie payments on November 21. It was followed the next day by most of the other banks of Virginia.[61] The Baltimore banks suspended on the twenty-second; the Philadelphia banks followed on the same day.[62] Specie payments were suspended in St. Louis on the twenty-eighth; the South Carolina banks followed on the twenty-ninth, and the Georgia banks on the thirtieth.[63] It is quite likely that the suspension of southern banks was due in large measure to political policy; although it must be borne in mind that there had been a continual absorption of specie there by individuals for many weeks. The banks of New Orleans, however, did not suspend until September, 1861; and then only at the request of the confederate government.[64]

[59] *Hunt's Merchants' Magazine,* Vol. XLIV, p. 77.

[60] *Bankers' Magazine* (New York), 1861–1862, "Notes on the Money Market." also see Dunbar's *Economic Essays,* pp. 309, 310.

[61] *Bankers' Magazine* (New York), 1860–61, p. 540; also, Dunbar, *Economic Essays,* pp. 309, 310.

[62] *Bankers' Magazine* (New York), 1860–61, p. 540.

[63] *Ibid.*

[64] *Ibid.,* 1861–62, p. 393.

In the West the panic was especially severe on those banks that had deposited southern bonds to secure their notes. Chicago bankers, because of the decline in value of these bonds and the consequent depreciation of much western currency, refused to accept such notes except at a heavy discount. This was true particularly of the notes of Illinois, Wisconsin, Ohio, Indiana, and Michigan.[65]

The crisis brought upon the market large amounts of stocks which holders had been obliged to sell at a sacrifice. The number of shares of bank stocks that changed hands weekly in New York before the crisis was not large—about three hundred on the average.[66] As money tightened, holders were obliged to sell; and in one week eight hundred shares were sold at a fall of ten points.[67] Bank stocks were among the first, however, to recover, and made a steady advance to old prices. On November 1, United States 5 per cents. of 1874 were selling at 102. By the close of the month they were selling at 95.[68] The fluctuations and decline in value of state securities, among which may be mentioned the 6 per cents. of Virginia,[69] Tennessee, North Carolina, and Missouri, contributed to the disturbances.[70] Among the most important of the industrials were the coal stocks, but little was done in them.[71]

The railroad stocks had been severely affected in the panic of 1857; and it was not until 1860 that they regained their old positions in the market. The bright prospects for that year had had a very beneficial influence on their stocks; but they were again depressed by the untoward events of November. The earnings of the New York Central for November, 1860, were $810,891 as against $720,202 in November 1859.[72] Notwithstanding this, the stock fluctuated violently.[73] Erie stood at 34⅞ on the seventh, declined to 26 on the twenty-first, and rallied

[65] Dunbar, *Economic Essays,* p. 310.

[66] *Banker's Magazine* (New York), Vol. XV, 1860–61, p. 516.

[67] *Ibid.*

[68] *Ibid.*

[69] *Ibid.*

[70] *Ibid.,* p. 519.

[71] *Ibid.,* p. 517.

[72] *Ibid.*

[73] *Ibid.*

to 29 at the close.[74] The earnings of this road were $587,242, for October, as against $474,606 in 1857.[75]

The money market during December, following the extension of loans by the banks, recovered from the worst effects of the panic. Money on call was comparatively plenty. In the discount market, however, rates were still very high. Good indorsed paper was hard to negotiate at 15 per cent.; and four- and eight-months paper at 18 per cent. Single names were subjected to 20 per cent. discount; other paper was quoted at 24 to 36 per cent.[76] At these rates very little was discounted, the demand having almost entirely ceased. The great difficulty of selling foreign exchange added to the depression; and sterling exchange was offered at from 100 to 102 on the old par of 109½.[77] The rate for bankers' bills was 104.[78]

The news of the crisis was carried to England by the *Atlantic*, which reached that country on November 30.[79] The next day the *Europa* sailed for New York with $540,000 in specie.[80] The *Persia* followed a few days later with $3,000,000.[81] This movement of specie continued far into 1861. In three months the gold transported from Europe to New York amounted to

[74] *Bankers' Magazne* (New York), Vol. XV, p. 518.

[75] *Ibid.* [76] *Ibid.*, p. 341.

[77] *The Bankers' Magazine* (New York), 1861–62, "Notes on the Money Market."

[78] *Ibid.* [79] *Ibid.* [80] *Ibid.*

[81] The specie received, exported, and amount in city for October, November, and December, was as follows:

SPECIE RECEIVED, EXPORTED, AND ON DEPOSIT IN NEW YORK CITY, 1860*

	Received	Exported	In Sub-Treasury	In City
October 7	...	.6	4.9	25.1
" 15	1.9	.0	4.4	24.7
" 20	.8	1.0	4.5	26.6
" 27	...	.3	4.8	27.6
November 3	1.2	.1	5.6	27.8
" 10	...	.1	5.7	26.8
" 17	.9	.1	5.0	24.4
" 24	1.0	.0	4.3	23.0
December 1	.8	.0	3.7	22.2
" 8	...	.0	3.1	21.6
" 15	1.0	.0	2.5	12.0
" 22	...	.0	2.9	23.2
" 29	6.8	.0	2.2	25.4

**Hunt's Merchants' Magazine*, Vol. XLIV, p. 200. The quantities in this table are expressed in terms of millions of dollars, five ciphers being omitted.

$12,725,000.[82] The aggregate amount of specie imported in the fiscal year ending with June, 1861, amounted to $40,000,000; and deducting $23,800,000 exported earlier in the year, it appears that the United States had received a balance of $16,500,000.

As the weeks went by it was seen that the country could not recover from this panic by the ordinary course of liquidation. Many losses were final and absolute. It is estimated that northern merchants lost at least $200,000,000 through repudiation of debts by the South.[83]

Because of the stagnation of business the banks had found it increasingly difficult to extend their loans. From December, 1860, to August, 1861, bank loans in New York were diminished by twenty-three million dollars. On account of the failure of crops in Europe, noted above, exchange was now in favor of the United States.[84] In the spring and summer of 1861, exchange was quoted at from two to three points below par in New York.[85] The banks of New York gained specie to an unprecedented extent.[86] In August, 1862, the specie held by the associated banks of New York was 50 per cent. of their demand liabilities; in Boston 27 per cent., and in Philadelphia 39 per cent.[87]

Secretary Chase's negotiations at this time for three $50,000,000 loans, and his refusal to leave the proceeds on deposit with the banks is a matter of common history. The banks extending these loans had a combined capital of $120,000,000, and coin reserves of $63,200,000. The first payment on the third loan was made December 10; and three days previous to that time the Boston and New York banks were actually stronger in specie than at the time when the first loan of $50,000,000 was advanced.

Two events now occurred which were disastrous in their effect. First, from the report of the secretary given to the public

[82] Dunbar, *op. cit.*, p. 311. [83] *Ibid.*

[84] *Hunt's Merchants' Magazine*, Vol. XLVI, pp. 277–81.

[85] *Bankers' Magazine* (New York), 1860–61, "Notes on the Money Market."

[86] *Hunt's Merchants' Magazine*, Vol. XLIV, pp. 80, 200, 329, 415.

[87] W. C. Mitchell, *History of the Greenbacks*, p. 39.

in December, 1861, it was found that expenses were $214,000,000 greater than had been anticipated; and that receipts would be $25,000,000 below the earlier estimate.[88] The bankers had requested Secretary Chase to bring forward a definite plan of finance based upon adequate taxation. He proposed, however, to raise only $50,000,000 by taxation, his main hope in securing funds being based on a scheme to reorganize the banks, and compel them to buy government bonds.[89] Great disappointment was expressed over the report.[90] The second event was the Trent affair, which almost caused a rupture of amicable relations between England and the United States.

The people began to hoard gold, and although the associated banks continued to pay out specie, there was no returning flow to them. Bank reserves were being rapidly depleted. On Saturday, December 28, 1861, the bankers of New York held a meeting, at which it was resolved to suspend specie payments. It was a measure of precaution rather than of absolute necessity; for on the day of suspension the New York banks held $4,600,000 more specie than they had held at the beginning of the year. Banks throughout the country soon suspended, and the national treasury was forced to follow. The news was received throughout the country generally with surprise.[91] It is not the purpose of this paper to discuss the further plans of the government for financing the war. The return of business to normal relations now depended on the course of the war; and the effects of the crisis of 1860 are submerged in the more serious issues and exigencies of the time.

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[88] *Report of the Secretary of the Treasury,* December, 1861, pp. 11, 12.

[89] *Ibid.,* pp. 17–20.

[90] *Hunt's Merchants' Magazine,* Vol. XLVII, December, 1861, p. 507.

[91] *New York Tribune,* December 31, 1861, p. 31.